



MICHIGAN

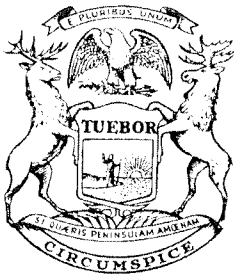
OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF HUMAN SERVICES

October 1, 2002 through September 30, 2004



THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

FOR THE FOURTH CONSECUTIVE AUDIT, WE ALSO RECOMMEND THAT DHS REVIEW AND EVALUATE APPROPRIATE METHODS TO HELP ENSURE THAT DHS STAFF COMPLY WITH ESTABLISHED CASE FILE INTERNAL CONTROL PROCEDURES FOR DOCUMENTING FOSTER CARE PROGRAM ELIGIBILITY AND THE PROPRIETY OF FOSTER CARE PROGRAM EXPENDITURES.

FINDING 430515

15. Adoption Assistance, CFDA 93.659

U.S. Department of Health and Human Services	CFDA 93.659 Adoption Assistance
Award Number: G 03 01 MI 1407 G 04 01 MI 1407	Award Period: 10/01/2002 - 09/30/2003 10/01/2003 - 09/30/2004
	Questioned Costs: \$56,109

DHS's internal control over the Adoption Assistance Program did not ensure its compliance with federal laws and regulations regarding activities allowed or unallowed, allowable costs/cost principles, cash management, and eligibility. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding eligibility. As a result, we issued an adverse opinion on compliance with federal laws and regulations for the Adoption Assistance Program.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Adoption Assistance Program awards.

Federal expenditures for the Adoption Assistance Program totaled approximately \$192.8 million for the two-year period ended September 30, 2004. We identified known questioned costs of \$56,109 and known and likely questioned costs totaling \$45,753,803.

Our exceptions, by compliance area, are as follows:

a. Activities Allowed or Unallowed

DHS did not ensure that expenditures incurred were for activities allowed according to the Adoption Assistance Program federal laws and regulations. As a result, we questioned costs of \$45,063. Our audit tests disclosed:

- (1) DHS incorrectly charged 21 medical subsidy payments totaling \$42,969 to the Adoption Assistance Program.
- (2) DHS incorrectly charged 6 recoupment expenditure credits and reissued payments totaling \$2,094 to the Adoption Assistance Program. DHS should have charged these expenditures to the TANF Program or used State funds.
- (3) As discussed in the Eligibility section (item d.) of this finding, DHS made adoption subsidy payments on behalf of an ineligible child and to an ineligible adoptive parent. As a result, the payments were not for activities allowed by Adoption Assistance Program federal laws and regulations. We questioned the costs in items d.(2) and d.(3) of this finding.

Federal law 42 *USC* 673(a)(1)(B) states that DHS may make adoption subsidy payments to adoptive parents on behalf of eligible children and does not allow DHS to expend Adoption Assistance Program awards for medical subsidy payments, TANF, or State-funded purposes. Also, federal regulation 45 *CFR* 1356.30 states that DHS may not claim federal financial participation for any adoption subsidy payment made on behalf of a child if, based on a criminal records check, a court of competent jurisdiction has determined that the prospective adoptive parent has been convicted of specified crimes.

b. Allowable Costs/Cost Principles

DHS did not allocate costs to the Adoption Assistance Program based on the cash basis of accounting. We questioned costs totaling \$5,534 (see Finding 18, item b., and related recommendation).

c. Cash Management

DHS included erroneous information in the fiscal year 2002-03 annual report to the Michigan Department of Treasury (see Finding 21, item b.(3), and related recommendation).

d. Eligibility

DHS did not ensure that it issued adoption subsidy payments on behalf of only eligible children and to adoptive parents eligible for subsidy according to federal laws and regulations. As a result, we identified known questioned costs of \$5,512 and known and likely question costs totaling \$45,559,881. Our audit tests disclosed:

- (1) As discussed in Finding 14, item c., DHS issued foster care maintenance payments on behalf of children who were not eligible for the Foster Care Program. In determining if an adoption subsidy qualifies for payment under the Adoption Assistance Program, DHS relies on the Foster Care Program eligibility determination that DHS previously made within SWSS-FAJ. In our review of the Foster Care Program, we noted that 26% of the foster care maintenance payments sampled did not meet the Foster Care Program eligibility requirements. Federal law 42 *USC* 673(a)(2)(A) requires that a child must be eligible for the Foster Care Program, the former Aid to Families with Dependent Children (AFDC) Program, or SSI to receive an adoption subsidy payment. We determined that 96% of the adoption cases that began receiving subsidy during our audit period were on behalf of Foster Care Program children. We identified the known and likely questioned cost impact on adoption subsidy payments to be \$45,559,881.
- (2) DHS issued 1 (2%) of 56 monthly subsidy payments totaling \$903 on behalf of a child who was not eligible for the Foster Care Program per SWSS-FAJ and who was not eligible for AFDC or SSI.

Federal law 42 *USC* 673(a)(2)(A) requires that the child for whom adoption subsidy payments are made on behalf of must be eligible for the Foster Care Program, the former AFDC Program, or SSI.

- (3) DHS issued adoption subsidy payments totaling \$4,609 to an adoptive parent convicted of a specified crime rendering the parent ineligible to receive adoption subsidy payments.

Federal regulation 45 *CFR* 1356.30 states that DHS may not approve any prospective parent for Adoption Assistance Program subsidy payments if the prospective adoptive parent has been convicted of a specified crime.

We reported similar conditions in our prior Single Audit. DHS responded that the adoption subsidy manager reviewed criminal history background requirements, payment requirements, and adoption subsidy agreements with staff. Our testing results indicated that DHS had made improvements in documenting the review of prospective parents' criminal history background and had documented that a criminal history background check was conducted for the adoptive parent in this instance. However, in this instance, DHS informed us that the conviction date most likely occurred after the date of the criminal history background check. DHS should determine the need to revise its procedures related to the timing of the criminal history background checks in the adoption process.

RECOMMENDATIONS

FOR THE SECOND CONSECUTIVE AUDIT, WE RECOMMEND THAT DHS IMPROVE ITS INTERNAL CONTROL OVER THE ADOPTION ASSISTANCE PROGRAM TO ENSURE ITS COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ELIGIBILITY.

We also recommend that DHS improve its internal control over the Adoption Assistance Program to ensure its compliance with federal laws and regulations regarding activities allowed or unallowed.